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MANAGEMENT LETTER

November 8, 2005

CONFIDENTIAL

Mr. Otto J. Wolff
Chief Financial Officer and Assistant Secretary for Administration
U.S. Department of Commerce
14th and Constitution Avenue, N.W.
Washington, D.C. 20230

Dear Mr. Wolff:

We have audited the consolidated financial statements of the U.S. Department of Commerce (Department) as of and for the years ended September 30, 2005 and 2004, and have issued our report thereon dated November 8, 2005. In planning and performing our audits of the Department's consolidated financial statements, we considered the Department's internal control over financial reporting, in order to determine our auditing procedures for the purpose of expressing an opinion on the consolidated financial statements. An audit does not include examining the effectiveness of internal control, and does not provide assurance on internal control over financial reporting.

During our fiscal year 2005 audit of the Department's consolidated financial statements, we noted two matters involving internal control over financial reporting and its operation that we considered to be reportable conditions under standards established by the American Institute of Certified Public Accountants. In our *Independent Auditors' Report*, dated November 8, 2005, we reported that we considered the findings related to (1) the Department's general information technology controls, and (2) the National Institute of Standards and Technology's (NIST) construction-in-progress account monitoring controls to be reportable conditions, but that we did not consider these areas to be material weaknesses. Details of our general information technology controls findings were reported to the Department in a separate letter.

Reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal controls, that in our judgment, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the consolidated financial statements. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce, to a relatively low level, the risk that misstatements, in amounts that would be material in relation to the consolidated financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our audit procedures were designed primarily to enable us to form an opinion on the Department's consolidated financial statements, and therefore, may not bring to light all weaknesses in policies or procedures that exist. However, we also take this opportunity to share our knowledge of the Department, gained during our work, to make comments and suggestions that we hope can be useful to you.

Although not considered to be reportable conditions, we noted certain matters involving internal controls and other operational matters, which are presented in Exhibits A through F, attached, for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve the Department's internal controls or result in other operating efficiencies. Each exhibit presents the status of prior year management letter comments. We have not considered the Department's internal controls since the date of our report.

We appreciate the courteous and professional assistance that the Department's personnel extended to us to complete our audit timely. We would be pleased to discuss these comments and recommendations with you at any time.

This report is intended solely for the information and use of the Department's management and the Department's Office of Inspector General and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

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U.S. Department of Commerce
FY 2005 Management Letter Comments
Departmental Level

Management's Activities Surrounding the Federal Managers' Financial Integrity Act Should be Strengthened

As reported in prior years, we noted that the U.S. Department of Commerce (Department) and its bureaus did not have a consistent interpretation of the *Federal Managers' Financial Integrity Act* (FMFIA) requirements, and used handbooks, manuals, or directives that have not been updated since fiscal year (FY) 2000, which precedes the full implementation of the Department's current financial system, *Commerce Business System* (CBS), and internal management reporting tool, *Consolidated Reporting System*. Although the Department has made some progress in addressing these matters and is preparing for implementation of the Office of Management and Budget (OMB) Circular No. A-123, *Management's Responsibility for Internal Control*, the Department and its bureaus need to continue with improving coordination of FMFIA activities within the Department and updating the handbooks, manuals, or directives (including the Department's directive for implementing FMFIA) maintained in hard copy and on the Department's website.

Specifically, FMFIA directs agencies to refer to OMB guidance, and states that by December 31, 1983, and by December 31 of each succeeding year, the head of each executive agency [*Department*] shall, on the basis of an evaluation conducted in accordance with guidelines prescribed under paragraph (2) of this subsection, prepare a statement that:

- The Department's systems of internal accounting and administrative control fully comply with the requirements of paragraph (1); or
- Such systems do not fully comply with such requirements.

In the prior year, we noted that the Department and its bureaus conducted a self-assessment of "systems" related to internal accounting and administrative control, but the bureaus do not have a consistent interpretation of the word "systems" as it applies to the FMFIA. Congressional intent for this Act was not limited to information technology (IT) systems, but is intended for agencies to include in their self-assessments a review of the "methods" of internal accounting and administrative controls.

In FY 2004 and FY 2005, we found that the bureaus considered non-IT controls as well as IT controls. As required by the *Federal Information Security Management Act,* IT security deficiencies and corrective actions – including the FMFIA material weakness in IT security – are tracked using a consistent Department-wide Plan of Actions and Milestones process. However, we continue to note that while each bureau has a central point for gathering information for the FMFIA report, the level of documentation and interaction among the stakeholders of the FMFIA process at the bureau-level is inconsistent across the Department. For example, the National Oceanic and Atmospheric Administration (NOAA) has a central database for tracking all deficiencies. The Bureau of the Census (Census) and the National Institute of Standards and Technology (NIST) did not have a similar central database. However, these bureaus have not identified any material weaknesses, which must be tracked for FMFIA. Without a formal process for tracking deficiencies, it is not clear that all deficiencies are being reported to a central point for consideration of findings both individually and in the aggregate. The inconsistency in addressing the FMFIA process may be due to outdated handbooks and manuals, which should include a schedule of the assessment programs required and evaluation timeframe, related to all accounting and control procedures. The need for updated handbooks and manuals is discussed in the previous section.

In FY 2005, we also found that the Department has updated several chapters of the *Accounting Principles and Standards Handbook*, *Cash Management Policies and Procedures Handbook*, and *Credit and Debt Management Operating Standards and Procedures Handbook* for current laws and regulations, but has not posted the revisions to the Department's website due to supervisory and bureau reviews that are in process. Additionally, the Department's Office of Financial Management worked with the Department's Office of General Counsel to draft the Department's rule on debt collection based on the revised *Federal Claims Collection Standards*, Code of Federal Regulations Title 31 Chapter IX, and other laws applicable to the collection of non-tax debt owed to the U.S. Government, and plans to revise the applicable sections in the *Credit and Debt Management Operating Standards and Procedures Handbook* after the internal review process is completed.

The Department continues to have other manuals/handbooks that should be re-assessed to address current operational and financial system requirements such as the *Personal Property Management Manual* and *Grants and Cooperative Agreements Interim Manual*.

<u>Recommendations</u>:

We continue to recommend that the Department:

1. Implement its plan to address the revised OMB Circular No. A-123.

2. Review and revise the Departmental directive to assist the bureaus with the timing, extent, and performance of the self-assessments as planned based on the revised OMB Circular No. A-123 implementation.

3. Revise existing operational and accounting handbooks, manuals, and directives, to ensure that the daily activities of its employees are in line with the current, and increasing, reporting requirements and Department-wide implementation of CBS.

Exhibit A-1

U.S. Department of Commerce
Status of Prior Year Management Letter Comments
Departmental Level

Recommendation Number	Reported Comment	KPMG's Recommendation	KPMG Assessment of Current Status
A1	Certain Operational and Accounting Handbooks Should be Updated	The Department's OFM should coordinate with all bureaus to review existing operational and accounting handbooks, manuals, and directives, to ensure that the daily activities of its employees are in line with the current, and increasing, reporting requirements and Department-wide implementation of CBS.	Open (see comment in Exhibit A).
A2 – A3	Federal Managers' Financial Integrity Act Oversight Should be Improved	The Department should take a more proactive role in coordinating the annual FMFIA self-assessments and ensuring that the intent of the Act is followed, and review and revise the Departmental directive to assist the bureaus with the timing, extent, and performance of the self-assessments.	Open (see comment in Exhibit A).

U.S. Department of Commerce
FY 2005 Management Letter Comments for the
National Oceanic and Atmospheric Administration

Controls over Personal and Real Property Should be Improved

During our testing of personal and real property, we noted the following:

- There were 9 adjustments for approximately $7.5 million (8 personal property items and a real property item) that related to property acquired or deleted in prior years but was recorded in FY 2005, because the supporting documents were not received timely from the Line Offices or Field Offices.

- A *Physical Inventory Report Certification*, that NOAA's Line Offices use to verify the personal property subsidiary ledger (Sunflower) system information, was not documented for 2 of 54 personal property items selected for testing, because these items were not recorded in the Sunflower system timely. The respective Property Custodians also did not annotate their certifications with these items, as required under NOAA personal property policies and procedures.

- A data storage silo that was purchased for $373,051 in December 2004, was not recorded as a capitalized asset in the Sunflower system as of September 30, 2005.

- The useful life and object classification code for 1 of 54 *Physical Inventory Report Certifications* did not agree to the information in the Sunflower system. We ultimately determined that the information in the Sunflower system was correct, so this discrepancy did not impact the consolidated financial statements.

- From our physical inspection of 31 personal property items, a personal property item acquired on September 30, 2004, for $215,216, was not included in the Sunflower system. The error correction was recorded in the Sunflower system as of September 30, 2005.

- NOAA improperly recorded 2 real property items donated to NOAA in FY 2005 with acquisition costs of $0 instead of $575,000. No adjustment was recorded in the Federal Real Property Management system as of September 30, 2005 for these items.

<u>Recommendations:</u>

We recommend that the Personal Property and Real Property Offices:

1. Implement a formal notification process to ensure that Line Offices notify the respective property branches timely, when property has been donated, transferred, and acquired, or such a transaction is expected to take place.
2. Establish an internal review process so that when data is entered into the Federal Real Property Management and Sunflower systems, a supervisor systematically reviews it.
3. Streamline data included on the *Physical Inventory Report Certification* to only include data that should be verified by the Property Custodian.

U.S. Department of Commerce
FY 2005 Management Letter Comments for the
National Oceanic and Atmospheric Administration, Continued

Controls over Grants Management Should be Improved

During our review of 30 active grant files, we noted the following:

- The CD-435, *Procurement Request*, was not date-stamped for 2 active grants.
- The *Financial Status Report* (SF-269) was not in 2 files.
- The *Federal Cash Transaction Report* (SF-272) was not in 1 file.
- There was no evidence of clearance by the Office of Legislative and Intergovernmental Affairs (OLIA), prior to the grant being awarded, in 3 files.
- There was no evidence of clearance by the Office of Inspector General (OIG), prior to the grant being awarded, in 1 file.
- One FY 2003 Single Audit Report was not received at the Federal Audit Clearing House (FAC) until June 5, 2005, almost one year after the required submission date. There was no evidence of a request for an extension from the grantee and no evidence follow-up by the Grants Management Division (GMD).

<u>Recommendations:</u>

We continue to recommend that the NOAA GMD:

4. Establish an internal review process to ensure that grant documentation is systematically reviewed to ensure compliance with applicable policies and procedures, including contacting grantees regarding delinquent reports.

We also recommend that NOAA:

5. Implement procedures to ensure that all required clearance approvals by the OLIA, as well as the OIG, are received prior to awarding grants to recipients.

6. Strengthen controls over the OMB Circular No. A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, review process to ensure that the GMD staff obtain and review Single Audit Reports for all grantees timely, and conclude on whether the findings identified have any implications for NOAA. Receipt of the Single Audit Report should be a condition before the granting or consummating of any additional awards. In cases where the Single Audit Report was not submitted to the FAC database, NOAA should request that the grantee submit it immediately to the FAC and notify NOAA that this has been done (in accordance with the current process). If the grantee has not completed its Single Audit, and NOAA decides to issue the grant award, the award document should include a special

condition to inform the grantee that the report must be submitted within a specified time. If the grantee continues to be non-respondent, NOAA should consider taking adverse action against the grantee. Adverse action may include placing current funding in a "hold" status, not awarding grants until the required report is submitted, and/or declaring the grantee to be "high-risk."

Accounting for Grant Advances and Payables Should be Improved

During our testing of grant advances and payables, we found that the grant advances, accruals, and the related expenses, were understated due to an incorrect query of the positive and negative cash on hand. Specifically, we noted the following:

- The query incorrectly included current year grant transactions.

- The query incorrectly excluded actual disbursements or advances made for SF-272s processed more that one year after the relevant fiscal year. The GMD received and processed the SF-272s up to three years subsequent to the relevant fiscal year; thus, these items should have been included in the query.

- The average positive cash on hand for FY 2001 through FY 2004, upon which the September 30, 2005 accrual was based, was not adjusted for the special disaster grant advance made to the State of Alaska in FY 2003 for $32 million. This item was an unusual transaction that distorted the average positive cash on hand, and should have been excluded for calculation purposes.

<u>Recommendation:</u>

We recommend that the NOAA GMD:

7. Perform a detailed review of the data generated for positive and negative cash on hand before submitting the reports to the Financial Reporting Division. In addition, the historical data generated for each year should be reviewed to identify unusual transactions that should be excluded when calculating averages for accrual purposes.

Controls over Sick Leave Accruals Should be Improved

During our testing of 52 payroll expense transactions, we noted 3 sick leave accruals that were inaccurately computed and were corrected as a result of our audit.

<u>Recommendation:</u>

8. We recommend that the NOAA implement a supervisory review, including periodic recalculations, over sick leave accruals.

U.S. Department of Commerce
FY 2005 Management Letter Comments for the
National Oceanic and Atmospheric Administration, Continued

Controls over Deferred Revenue and Unbilled Accounts Receivable Should be Strengthened

During our testing of a sample of 10 deferred revenue items, we noted that 1 item selected for testing had a debit balance of $1.2 million that should have been reported in unbilled accounts receivable, but was not. The correction was also not included in the year-end entry that NOAA recorded to transfer debit balances in the deferred revenue account to unbilled accounts receivable as of September 30, 2005.

In addition, during our testing of a sample of 12 unbilled accounts receivable items, we noted the following:

- 1 project had an unbilled receivable balance of $34 thousand, although the project was terminated on June 30, 2004. The reimbursable agreement requires NOAA to monitor the environmental impact of an off-shore oil rig and submit a written report of findings and costs to the customer before billing. However, the documentation related to the accrued costs was misplaced by the National Marine Fisheries Service, and NOAA was not able to bill the customer for the costs incurred.

- 1 project had an unbilled accounts receivable balance of $4 thousand, although the project was terminated on December 31, 2004. On June 23, 2004, NOAA collected the total accrued costs for this project of $25 thousand. Thus, the unbilled accounts receivable should have been zero.

- 1 project had a debit unbilled accounts receivable balance of $175 thousand, which should have been reported as a deferred credit, but was not.

<u>Recommendations:</u>

We recommend that:

9. The NOAA Financial Reporting Division should implement adequate controls to ensure that all balances representing unbilled accounts receivable are properly transferred from deferred revenue to unbilled accounts receivable.

10. The National Marine Fisheries Service should ensure that documentation related to accrued costs for reimbursable agreements is provided to reimbursable project sponsors in a timely manner, so that the NOAA Finance Office can bill and collect from those sponsors.

11. The NOAA Finance Office, CBS Program Division, should ensure that refunds and transfers are properly processed.

U.S. Department of Commerce
Status of Prior Year Management Letter Comments
National Oceanic and Atmospheric Administration

Recommendation Number	Reported Comment	KPMG's Recommendation	KPMG Assessment of Current Status
B1 – B3	Accounting for Construction Work-in-Progress (CWIP) Should be Improved	The NOAA Finance Office and the appropriate CWIP activity managers transfer costs of CWIP projects immediately to personal property once a constructed property item is placed into service. If the CWIP activity manager requires time to close the CWIP contracts, a preliminary Form 37-6 should be submitted to the Personal Property Office. A final Form 37-6 should be completed once all contracts are closed and finalized, and any cost adjustment should be recorded.	Completed.
		The NOAA Finance Office ensure that adjustments requested by the CWIP activity managers are recorded timely and any follow-up actions, such as additional information requests, are immediately communicated and taken.	Completed.
		The CWIP activity managers ensure that all *Unreconciled Procurement Request* transactions relating to CWIP are timely investigated and resolved. CWIP activity managers should work in conjunction with the NOAA Personal Property Office to ensure that all required information is submitted.	Completed.
B4 – B9	Controls over Personal Property Should be Improved	The NOAA Personal Property Office (PPO) work with Property Custodians to ensure that those responsible for certifying the physical inventory in their custodial areas reconcile all data included on the Physical Inventory Report Certifications to their records at least annually.	Completed.
		The NOAA PPO ensure that the Sunflower system is adequately modified to correct the accumulated depreciation limitation for all adjustments. The modifications should include manual computation for all personal property items with upward changes in acquisition costs and other	Completed.

U.S. Department of Commerce
Status of Prior Year Management Letter Comments, Continued
National Oceanic and Atmospheric Administration

Recommendation Number	Reported Comment	KPMG's Recommendation	KPMG Assessment of Current Status
		information that is needed for the computation of accumulated depreciation until the system modifications are made.	
		The NOAA PPO perform review procedures to ensure any changes in Sunflower data fields are immediately investigated and explained. These procedures can be system generated, i.e., exception reports run against data fields that should not be changed unless approved. The PPO should also perform quarterly analyses of depreciation expense by comparing the present quarter or year to prior year to ensure any significant or unusual fluctuations are investigated and explained.	Completed.
		The NOAA PPO work with the respective Line Offices to ensure information is submitted to the PPO for recording, on a timely basis and in accordance with its policies and procedures. All capitalizable property transferred to NOAA should be recorded as an asset when title passes to NOAA.	Open (see comments in Exhibit B).
		The NOAA PPO work with NOAA management to permanently fill the vacant supervisory positions within the PPO and to reanalyze the workload for all people in that office. This will enable the PPO to ensure adequate supervisory reviews are performed over all personal property transactions.	Completed.
		The NOAA PPO and Finance Office meet on a monthly basis to discuss any differences resulting from the reconciliation between the Sunflower system and CBS. This meeting will enable both parties to ensure that the data being reconciled is current and that all differences are immediately identified, investigated, and resolved.	Completed.

U.S. Department of Commerce
Status of Prior Year Management Letter Comments, Continued
National Oceanic and Atmospheric Administration

Recommendation Number	Reported Comment	KPMG's Recommendation	KPMG Assessment of Current Status
B10 – B12	Personal Property Lease Accounting Should be Strengthened	The NOAA Procurement Office ensure that all information entered on the Lease Determination Worksheets is supported by documentation that is retained in the respective lease folder before the worksheet is approved by the reviewer.	Completed.
		The NOAA Procurement Office perform periodic reviews to ensure the controls are operating and that all new leases are properly accounted for.	Open (see comments in Exhibit B).
		The NOAA Procurement Office ensure that all worksheet responses for values use current year dollars.	Completed.
B13 – B15	Accounting for Grant Advances and Grant Payables Should be Improved	Develop a consistent method of identifying expired grants and enforce timely administrative closeout of these grants to ensure that all remaining funds are deobligated.	Completed.
		Implement adequate procedures to monitor grants in order to ensure that all reports are received from grantees, timely.	Open (see comments in Exhibit B).
		Establish an internal review process to ensure that grant documentation is systematically reviewed to ensure compliance with applicable procedures.	Open (see comments in Exhibit B).
B16	Procedures for Aging Receivables Should be Reviewed	The General Ledger Branch and Accounts Receivable Branch continue to work closely with the CBS Office to further enhance the accounts receivable module to ensure that reported balances are aged properly.	Completed.
B17	Controls over Physical Inventory Counts Should be Strengthened	The NLSC ensure all Bills of Lading received are compared to the items being shipped. All incorrect Bills of Lading should either be returned for correction, or adjusted by the NLSC warehouse immediately. Once the Bills of Lading are received, the CLS inventory system should	Completed.

U.S. Department of Commerce
Status of Prior Year Management Letter Comments, Continued
National Oceanic and Atmospheric Administration

Recommendation Number	Reported Comment	KPMG's Recommendation	KPMG Assessment of Current Status
		be immediately updated.	
B18 – B19	Controls over Payroll Should be Strengthened	The Technical Service Unit review all manual adjustments to the payroll system to ensure that accrued annual leave balances carried forward are accurately reported.	Completed.
		NOAA's management ensure that all employees' timesheets are properly approved by their direct supervisors before their paychecks are disbursed, and that timekeepers only initial time sheets that are signed and dated by the employee's supervisor.	Completed.
B20 – B21	Accounting for Fund Balance with Treasury and Other Cash Should be Improved	The NOAA Funds Management Branch record all adjustments timely, and ensure all amounts included in the Other Cash account represent cash held by NOAA.	Completed.
		The NOAA Funds Management Branch investigate and timely resolve the unreconciled difference identified in the Suspense Account, and adjust the general ledger accordingly.	Completed.
B22 – B23	Internal Controls and Accounting for Deferred Revenue Should be Strengthened	The NOAA Line Offices should periodically review their projects with advances and deferred revenue balances and routinely alert the Accounts Receivable Branch when projects should be closed and when to refund the sponsors for any remaining advance or deferred amounts.	Completed.
		The NOAA CBS team ensure that the debit and credit balances for the projects identified in our test work are properly matched using the same project number.	Completed.
B24	Internal Controls over Budgetary Resources Should be Improved	NOAA strengthen its internal review process to ensure that a supervisor systematically reviews the *Funds Control Document* to ensure that discrepancies are identified and cleared on a timely basis.	Completed.

U.S. Department of Commerce
Status of Prior Year Management Letter Comments, Continued
National Oceanic and Atmospheric Administration

Recommendation Number	Reported Comment	KPMG's Recommendation	KPMG Assessment of Current Status
B25	Accounting for Supplementary Stewardship Reporting Should be Strengthened	NOAA initiate procedures to report performance outcomes and measures for its stewardship investments. This includes identifying the performance outcomes and measures, and requiring the respective departments to gather the information necessary to report this information in its financial statements.	Completed.

Department of Commerce
FY 2005 Management Letter Comments for the
National Institute of Standards and Technology and NIST-Serviced Bureaus

Controls over the Review of FACTS II Information Should be Improved

During our review of the third quarter SF-133, *Report on Budgetary Execution and Budgetary Resources*, for one appropriation, we noted that unobligated balance – available and unobligated balance not available – other, were overstated and understated by $78 thousand, respectively.

Recommendation:

1. We recommend that NIST management ensure that amounts reported on the *Federal Agencies' Centralized Trial-balance System (FACTS) II* are properly reviewed prior to submission.

Controls over Grants Management Should be Improved

During our testing of 20 grant files, we noted the following for 4 files:

- The Grant Specialist did not take the proper follow-up action to obtain missing SF-269s from the grant recipients. Each grantee is required to submit a SF-269 to NIST, to comply with the terms and conditions of the grant award. The Grant Office did not permit a deadline extension for the SF-269 reporting requirement.

Recommendation:

2. We recommend that the NIST Grants and Agreements Management Division strengthen established controls to ensure that the grant recipients submit all documentation required by the grant agreement, to be able to properly review the financial status of the grantee.

Environmental Liability Estimates Should be Properly Escalated

NIST's nuclear reactor decommissioning and demolition liability estimate represents an estimate for decommissioning costs and an estimate for direct costs to NIST for reactor decommissioning in years immediately following shutdown. NIST developed detailed calculations for both components of this liability as of the end of calendar year 2003.

During our testing, we noted that while the decommissioning cost component was escalated to 2005 dollars (that is, inflation was appropriately added), escalation was not applied to the direct cost component. If the direct cost components, amounting to $25.9 million, had been escalated from 2003 dollars to current year costs, the direct cost estimate would have been approximately $2.4 million higher at September 30, 2005.

Department of Commerce
FY 2005 Management Letter Comments for the
National Institute of Standards and Technology and NIST-Serviced Bureaus, Continued

Recommendation:

3. We recommend that NIST continue to escalate all components of its nuclear reactor decommissioning cost liability, and incorporate this escalation into the annual estimation process.

Exhibit C-1

U.S. Department of Commerce
Status of Prior Year Management Letter Comments
National Institute of Standards and Technology and NIST-Serviced Bureaus

Recommendation Number	Reported Comment	KPMG's Recommendation	KPMG Assessment of Current Status
C1	Controls over the Review of Time and Attendance (T&A) Reports Should be Improved	Management ensure that all employees' T&A Reports are signed and dated by the supervisor in a timely manner.	Completed.
C2	Controls over the Reconciliation of Property, Plant, and Equipment Should be Improved	NIST ensure that differences noted in the monthly personal property reconciliations are resolved timely.	Completed.
C3	Controls over the Review of Emergency Loan Guarantee Program Liability Account Should be Improved	NIST Financial Statements Group ensure proper review of the Loan Guarantee Liability account and related calculations to ensure that the annual subsidy re-estimates are properly recorded.	Completed.
C4	Corrective Action Plan for Prior Year's Finding Should be Implemented	NIST ensure that its corrective action plan for obtaining reimbursable agreement documents is implemented timely.	Completed.

U.S. Department of Commerce
FY 2005 Management Letter Comments for the
Bureau of the Census

Accounting for Internal Use Software Should be Strengthened

During our testing of one internal use software (IUS) item and 3 IUS in development items, we noted the following:

- The Client Support Office (CSO) improperly included approximately $933 thousand of cost related to maintenance in the *Remedy Help Desk* completed IUS.

- CSO categorized the *Remedy Help Desk IUS* and enhancements as completed IUS as of June 30, 2005. However, the initial development of the *Remedy Help Desk* IUS was completed in April 2003. Thus, CSO should have categorized $2.3 million as completed IUS in April 2003.

- The Census Governments Division did not transfer the *Death in Custody 2003* software completed in June 2005, from IUS-in-development to completed IUS.

- The Census Administrative and Management Systems Division (AMSD) did not transfer the *Decennial Applicant Personnel and Payroll System* (DAPPS) which was used to pay temporary employee in May 2003, from IUS in development to completed IUS.

Thus, property, plant, and equipment (PP&E) is overstated by $2.9 million, current year expenses are understated by $2.4 million, and cumulative results of operations is overstated by $2.5 million. The error corrections were not recorded as of September 30, 2005.

<u>Recommendations:</u>

We recommend that Census:

1. Periodically train all IUS project managers on the reporting requirements of IUS.

2. Establish a routine process that requires communication between the Finance Division and the Program Divisions, regarding the status of active construction projects to ensure that completed projects are transferred from IUS in development into completed asset accounts, timely.

Controls over Accounting for Reimbursable Agreements Should be Strengthened

During our testing of a sample of 40 reimbursable agreements where Census is the provider, we noted the following:

- Multiple projects had deficit balances for prior Fund Code Fiscal Years (FCFY) in the "Available for Obligation" column of the *Reimbursable Project Management* (RPM) report

U.S. Department of Commerce
FY 2005 Management Letter Comments for the
Bureau of the Census, Continued

as of March 31, 2005, June 30, 2005, and August 31, 2005, amounting to $41,800, $5,506, and $26,925, respectively. As of September 30, 2005, the balances for the various projects identified with deficits for the period ending March, June, and August 2005 amounted to ($9,708).

- Census developed a policy which may lead to a potential appropriation law (13 United States Code (USC) 1535 *Economy Act* and 31 USC 1301(a) *Application of Appropriations*) violation (that is, a customer's appropriation being used for other than its intended purpose). Specifically, Census issued a policy memo titled *Ratification of Deficits – Reimbursable Work Agreements* dated December 10, 2004, which permits deficit balances under $2,500 to be "defrayed in part through application of surplus balances under $2,500." It appears that this policy is contrary to BC-505A, *Reimbursable Agreement Cost Estimate and Acceptance*, language.

- The Census Director signed the Temporary Work Authority (TWA) for a project six months after the period of performance began, and costs were incurred prior to the Director's review and approval. In addition, the customers did not sign letters of intent and the TWA was accompanied with a memorandum, which was not signed by the customers. Regarding the letters of intent, we recognize that work performed under this TWA, for an approximate 360-day period, is mandated by 13 USC Section 161 and 31 USC Section 6102(a); however, the lack of letters of intent to accompany the TWA does not comply with the *Census Policy and Procedures Manual*.

- The Census Director signed, but did not date, one reimbursable agreement.

- The FY 2004 portion of the agreement authority for $1 million, from an original multi-year agreement signed on August 14, 2003, for a project was entered in the financial system in FY 2005 under FCFY 2005.

During our testing of an accounts receivable item, we noted that the period of performance end date in the CBS reimbursable module for an item was not supported by the customer-signed agreement maintained in the project folder. The customer-signed agreement end date is March 31, 2005, versus the system end date of September 30, 2005.

<u>Recommendations:</u>

We recommend that Census:

3. Amend their deficit ratification policy, and research and account for all FCFY agreement authority balances, to ensure that all deficits and surpluses have been billed or refunded, as applicable.

4. Follow its policy to obtain a customer signed letters of intent, when a formal signed agreement can not be implemented prior to the period of performance.

5. Strengthen its supervisory review controls to detect unrecorded agreement authority for multi-year agreements. For long-term consideration, Census should develop automated controls to allow all parts of an agreement to be entered in the financial system when the agreement has been signed. The system should be capable of recognizing when it is appropriate to activate agreement authority for future fiscal years.

6. Correct the period of performance end date to be in accordance with the agreement.

Accounting for Imputed Costs Should be Strengthened

During our testing of imputed costs, we noted the following:

- Census used improper rates to calculate the employee withholding and agency contributions for the pension imputed cost, instead of using the actual amounts remitted to U.S. Office of Personnel Management (OPM).

- Census used a cumulative per quarter enrollment count for the Federal Employees Health Benefits (FEHB) program, instead of using enrollment counts at three discrete points in time as outlined in the OPM *Benefits Administration Letter*.

Census recorded the $11 million adjustment in CBS as of September 30, 2005.

<u>Recommendation:</u>

7. We recommend that Census Finance comply with the annual guidance per the OPM *Benefits Administration Letter* and adjust imputed costs and imputed sources in addition to its planned training. Census informed us that after reviewing our calculations and re-reading OPM's guidance, the Financial Reporting Staff Chief conducted training on November 2, 2005 during the Division's weekly staff meeting.

Controls over Equipment Purchases Should be Strengthened

During our testing of a sample of 35 cash disbursement transactions, we noted the following:

- The purchase of two special purpose storage racks with a total cost of approximately $141 thousand were not recorded in the *Automated Property Management System* (APMS) and were not recorded in the property standard general ledger account.

- A bulk purchase of hand-held computers for approximately $450 thousand was not recorded in the property standard general ledger account.

During our testing of PP&E, we also noted that Census did not capitalize the General Services Administration (GSA) surcharge associated with the purchase of a Dell disc processor.

Recommendations:

We recommend that Census Administrative and Customer Service Division (ACSD) and Finance Division:

8. Reconcile the expenses coded with capitalizable property object class codes to APMS and PP&E standard general ledger accounts and ensure that all procurement transactions are properly reviewed for the propriety of the object class code.

We recommend that Census:

9. Review all supporting documents (for example, invoices) for PP&E purchases and make any necessary adjustments in APMS and the general ledger.

Fund Balance with Treasury Reconciling Items Should be Adjusted to the General Ledger, Timely

During our testing over the reconciliation of fund balance with Treasury for the FMS 6654, *Undisbursed Appropriation Account Trial Balance*, we noted that there were 31 unresolved reconciling items amounting to $48,104 outstanding over 90 days as of March 31, 2005, and 67 unresolved reconciling items amounting to $186,704 outstanding over 90 days as of June 30, 2005.

We noted that there were unidentified recurring reconciling items that continue to appear each month, totaling $125,695.

Recommendation:

10. We recommend that Census continue to have bi-weekly meetings attended by all Finance Division sections to discuss and resolve reconciling items within its stated 90 day policy period. Census should also research and resolve all reconciling items with Treasury.

Controls over Operating Lease Schedules Should be Strengthened

During our testing of operating leases, we noted the following:

- The fourth quarter operating lease schedule contains two mathematical errors. We calculated $31,650,055 and $49,285,520 as the total future lease payments for FY 2006 and FY 2009, respectively, versus Census' calculation of $31,654,521 and $49,273,920, respectively.

- Census GSA real property future lease payment disclosure in Commerce's consolidated footnote is missing the amounts for the "federally leased parking" category. After the fourth quarter operating lease schedule was submitted to the Financial Reporting Section, ACSD added the "federal leased parking" category to the schedule, but did not communicate the change to the Financial Reporting Section. The future lease payments reported for FY 2006, FY 2007, FY 2008, and FY 2009 were understated by $18,000, $19,095, $19,668, and $20,259, respectively.

<u>Recommendations:</u>

We recommend that Census:

11. Review the operating lease schedules for mathematical accuracy.

12. Establish a control to ensure that corrections to operating leases are communicated to the Financial Reporting section timely.

Controls over De-obligation of Undelivered Orders Should be Strengthened

During our testing of a sample of 10 undelivered orders, we noted that Census did not reduce an undelivered order for an airline ticket for $471 after the travel was completed on June 30, 2005. Census reduced the undelivered orders in October 2005, subsequent to our inquiry.

The Finance Division informed us that, effective October 1, 2005 and in conjunction with the AMSD, Census has developed an enhancement to the Travel Management Information System and CBS that will de-obligate the airline tickets when the bills are received in the Finance Division. An aging report of undelivered orders would serve as a detection control to validate the effectiveness of the new tool and complement procedures to validate de-obligation of other undelivered orders.

<u>Recommendation:</u>

13. We recommend that Census implement a control to ensure that undelivered orders for travel are de-obligated timely, once the travel is complete. Such a control may include reviewing an aging report for undelivered orders.

Controls over Sick Leave Accruals Should be Improved

During our testing of a sample of 36 payroll expense transactions, we noted that the sick leave balance per the certified timesheet in the time and attendance (T&A) software did not agree to the information in the U.S. Department of Agriculture's National Finance Center (NFC) payroll system for one employee. The sick leave balance in the NFC database was understated by 6 hours amounting to $14.

U.S. Department of Commerce
FY 2005 Management Letter Comments for the
Bureau of the Census, Continued

Recommendation:

14. We recommend that Census develop a report that will capture the leave balance being held in abeyance at NFC, provide this information to timekeepers at the division level, and ensure that timekeepers compare the report to the current T&A system to identify discrepancies and take corrective action in a timely fashion.

Controls over Performance Measures Should be Improved

During our testing of performance measures, we noted that the FY 2005 actual result for the American Community Survey (ACS) collection rate, was estimated using FY 2004 fourth quarter data. Because the rate is an estimate, it should be disclosed as such in the Department's *FY 2005 Performance and Accountability Report* (PAR), but was not.

Recommendation:

15. We recommend that Census indicate when estimates, rather than actual data, are being presented in the PAR.

U.S. Department of Commerce
Status of Prior Year Management Letter Comments
Bureau of the Census

Recommendation Number	Reported Comment	KPMG's Recommendation	KPMG Assessment of Current Status
D1 – D2	Accounting for Accruals Need to be Improved	Census ensure that thorough reviews of estimated accruals are conducted and recorded quarterly.	Completed.
		Census review the payroll liability calculation methodology and ensures that the calculation considers the appropriate number of days in the payroll period.	Completed.
D3 – D7	Controls over Accounting for Reimbursable Agreement Authority Should be Strengthened	Census ensure that reimbursable agreement authority is recorded on a timely basis.	Open (see comments in Exhibit D).
		Project Managers periodically review the RPM report to ensure that all reimbursable agreements are timely and properly recorded in the system. In addition, we recommend that someone other than the preparer review cost estimates for reimbursable agreements.	Partially open (see comments in Exhibit D).
		Census ensure that a TWA or a BC-505A is in place prior to the start of any related work. In addition, we recommend that Census ensure that work is not performed for more than 90 days when a permanent agreement is not authorized, regardless of the customer's request, unless the Comptroller allows an exception form the 90-day limitation based on the customer's request. However, the exception should state the specific timeframe allowed.	Completed.
		Census ensure that procedures for reimbursable work are performed according to the *Policies and Procedures Manual* and that Census should not execute a reimbursable agreement without a complete and signed BC-505A, unless authorized by the Census bureau Legal Office and Budget Division.	Partially open (see comments in Exhibit B).

U.S. Department of Commerce
Status of Prior Year Management Letter Comments, Continued
Bureau of the Census

Recommendation Number	Reported Comment	KPMG's Recommendation	KPMG Assessment of Current Status
		The sponsoring division ensure that the periods of performance entered in the system agree to the periods of performance in the reimbursable agreement.	Open (see comments in Exhibit B).
D8	Accounts Receivable Aging Report Needs to be Finalized	Census Finance Division and the CSC continue to coordinate and finalize the new billed accounts receivable aging report.	Completed.
D9 – D11	Accounting for Accounts Receivable and Deferred Revenue Needs to be Strengthened	Census ensure that cost adjustments are posted before the carryover is performed.	Completed.
		Census ensure that projects are properly liquidated.	Completed.
		Census ensure that chargebacks for earned revenue are posted to the accounts receivable.	Completed.
D12	Fund Balance with Treasury Reconciling Items Should be Adjusted to the General Ledger, Timely	Census continue to have a bi-weekly meeting with all of the Finance Division sections to discuss reconciling items and continue to resolve reconciling items within 90 days.	Open (see comment in Exhibit D).
D13 – D16	Accounting for Equipment Trade-ins Should be Improved	Census ensure that the authorization of all trade-in equipment is properly documented, based on the DOC *Property Management Manual*.	Completed.
		Census update the *Census Bureau Administrative Manual* (K-9) to clarify the documentation requirements for disposal of property as outlined in the *DOC Property Management Manual* or add a reference to the specific paragraph in the *DOC Property Management Manual*.	Completed.
		Census provide additional training for Census personnel regarding the acquisition and disposal of personal property in FY 2005 and thereafter, as planned.	Completed.
		Census record the cost of the equipment acquired through exchange either at the fair	Completed.

U.S. Department of Commerce
Status of Prior Year Management Letter Comments, Continued
Bureau of the Census

Recommendation Number	Reported Comment	KPMG's Recommendation	KPMG Assessment of Current Status
		value of the equipment surrendered or the fair value is determinable, we recommend that the cost of the equipment acquired be recorded at the net book value of the equipment surrendered.	
D17	Controls over General Service Administration Leases Schedules Should be Strengthened	Census conduct a detailed review of all of its lease disclosures to ensure that all estimates and changes in estimates are properly documented and reviewed by supervisory personnel.	Open (see comments in Exhibit D).
D18	Receipt Dates for Electronic Transmissions Need to be Resolved	Census Systems Division upload the GTA file into CBS on the date the file is available for interfacing, when possible. In addition, we recommend that the Finance Division and the Systems Division develop a way for CBS to recognize the actual date of receipt of invoices or electronic transmission as the "received date" noted in CBS, to ensure that CBS accurately calculates the payment due date.	Completed.

Department of Commerce
FY 2005 Management Letter Comments for the
Economic Development Administration

There were no FY 2005 management letter comments related to EDA.

U.S. Department of Commerce
Status of Prior Year Management Letter Comments
Economic Development Administration

Recommendation Number	Reported Comment	KPMG's Recommendation	KPMG Assessment of Current Status
E1	Management Review over Recorded Obligations Should be Implemented	EDA management establish proper controls to correct errors by periodically reviewing obligations recorded in the general ledger to validate their existence, completeness, and accuracy.	Completed.
E2	Controls over Monitoring Excess Funds should be Strengthened	EDA monitor the deposit of the excess funds to ensure that the grantees comply with EDA's specific instructions.	Completed.
E3	Controls over Cash Receipts Should be Improved	EDA obtain and retain all the civil judgment documentation to record and support the receivables, timely, and to support the related collection terms.	Completed.
E4	Controls over the Review of FACTS II Information Should be Improved	EDA ensure that amounts reported on the FACTS II system are properly reviewed and agreed to the general ledger prior to submission.	Completed.
E5	The Process of Updating Goals II Enterprise System User Information Should be Strengthened	EDA submit the appropriate access request form to Treasury in a timely manner, to ensure proper access to the Goals II Enterprise System.	Completed.
E6	Controls over Grant Accruals Should be Improved	EDA enhance its internal controls over year-end grant accruals to compare actual subsequent disbursements to related accruals to assess the accuracy of its grant accrual methodology.	Completed.

U.S. Department of Commerce
FY 2005 Management Letter Comments for the
International Trade Administration

Controls over User Fees at the Denver, CO USEAC Should be Improved

During our review of five participant items for user fees at the Denver U.S. Export Assistance Center (USEAC) office, we noted the following:

- User fees charged to two participants, Fine Point Technologies and Imageware Systems, Inc., from the Centrum für Büro und Informationstechnik (Center for Office and Information Technology – English translation) (CeBIT) trade event did not have standard E-Menu participation agreements. Non-standard forms were used as invoices to obtain credit card information from the customers.

- The Denver USEAC office did not obtain a participant agreement related to the international company profile for China that was signed by both USEAC and the customer, Reynolds Polymer, prior to our audit inquiry.

<u>Recommendation:</u>

1. We recommend that ITA ensure that trade specialists and office directors are aware that a fully executed standard participation agreement should be completed prior to the collection of service and participation fees and that a copy of the signed agreement should be kept in the client file.

Controls over User Fees at the Brussels, Belgium Foreign Post Should be Improved

During our testing of a sample of 5 participant items for user fees at the Brussels, Belgium Foreign Post, we noted that a Participation Agreement was not properly signed by the customer after the agreement was executed.

<u>Recommendation</u>

2. We recommend that the Brussels Foreign Post implement a control to ensure that Commercial Specialists obtain signed Participation Agreements from customers when the agreement is fully executed. We also recommend that foreign posts send signed agreements to the U.S. Department of Interior's National Business Center's Denver Office.

Exhibit F-1

U.S. Department of Commerce
Status of Prior Year Management Letter Comments
International Trade Administration

There were no FY 2004 management letter comments related to ITA.

U.S. Department of Commerce
FY 2005 Management Letter Comments for the
National Technical Information Service

There were no FY 2005 management letter comments related to NTIS.

Department of Commerce
Status of Prior Year Management Letter Comments
National Technical Information Service

Recommendation Number	Reported Comment	KPMG's Recommendation	KPMG Assessment of Current Status
NTIS-1	Review of Inactive Customer Deposit Accounts	We recommend that to build on this progress, and in addition to the planned ongoing review of accounts inactive for five years, NTIS should also review all individually significant accounts which have been inactive for one year. The level of materiality above which accounts are determined to be significant should be set by NTIS management, at a level to ensure that the risk of material under-recognition of revenue within the financial statements is mitigated.	Completed.